



QUARTERLY ACTIVITIES REPORT

Period ended 30 September 2012

KEY POINTS

- Vanuatu – documentation awaiting approval
- Geothermal Gradient Well Project unilaterally cancelled
- Professor Mary O’Kane joins KUTh board of directors

Summary

In **Tasmania** we continue to pursue development opportunities for our Lemont and Fingal resources. To this end the company is working with the Australian geothermal research community to establish a government funded drilling program designed to investigate and improve exploration for deep permeable fractures, such as those interpreted at Lemont.

The Pacific Region

Vanuatu – The Company provided an update on Vanuatu in its ASX release dated 19 September 2012. Good progress was made with the government appointed Geothermal Task Force (GTF) and approval of proposed regulatory changes by the Cabinet and the State Law Office. Regrettably the legislation was not able to pass through the last sitting of Parliament at the end of August. The government is now in “caretaker mode” with elections scheduled for 30 October 2012. The positive outcome from briefings to various political candidates during August was the strong bi-partisan support for the project. The company’s key focus in the last quarter of 2012 will be to complete outstanding documentation so that drill planning can commence early in 2013.

Saipan – The Company made two releases during the quarter to keep investors updated on events unfolding in Saipan concerning the geothermal gradient well tender that the company had successfully bid for. There is an ongoing public debate concerning the Governor’s use of his executive powers to sign a new diesel power purchase agreement with a US private company while at the same time promoting the need to “*unblock the stalled renewable energy projects caught in the pipeline.*” On 24 September the company announced to the market that it had received notice from the Saipan Commonwealth Utilities Commission (CUC) that the Geothermal Gradient Well Project was cancelled.

Australia

Tasmania

We remain very positive about the quality of our Tasmanian resources. The next stage of work on our prospects at Lemont and Fingal requires deep drilling and, consequently, significant financial investment. The company remains determined that any future work undertaken on these resource areas will provide value to its shareholders through significant and affordable project risk reduction.

We are pursuing joint research and development programs to finance further exploration and development. There are significant synergies between the Lemont project and the research interests of the Australian geothermal research community who have identified *permeability* as a research priority for both exploration and development of geothermal resources. Recognising that permeability is key to delivering high flow (or production) rates from a geothermal reservoir, KUTH has pioneered the exploration for deep permeable zones through its Naturally Fractured Hot Rock play at Lemont.

The recent establishment of the *Australian Renewable Energy Agency* (ARENA) opens up the prospect of funding for R&D projects aimed at reducing the cost and risk of geothermal development.

Queensland

There has been no additional exploration on the Jackin Creek tenement in North Queensland during the quarter. We continue to await a decision regarding our application lodged for the Epsilon licence area located in the south west of the state.

Pacific Region

Vanuatu

Government

Much of the company's focus during the quarter has been targeted at the Vanuatu project. The Vanuatu government appointed a Geothermal Task Force (GTF) from the Environment, Lands, Energy, Climate Change and Finance Departments with a mandate to facilitate the introduction of the geothermal project. This team has worked with KUTH and the utility (UNELCO) to address the outstanding regulatory items so that the Power Purchase Agreement (PPA) can be finalised and the project can move to the next stage drilling program.

Limitations in the current Utilities Regulatory Authority Act (URA Act) do not consider an independent power producer generating geothermal electricity and the company must get comfort on power tariff methodology before it can move the project forward. The required URA Act changes were finalised in August by the GTF, approved by Cabinet and drafted into the URA Act by the State Law Office for subsequent passing by parliament. Unfortunately procedural matters prevented the parliament from voting on the changes on the last sitting day and the next parliamentary session will not be held until after the government elections are held on 30 October 2012.

Documentation

The company has now completed all draft documentation which is now pending final government approvals before it can finalise the PPA with UNELCO. These documents include:

- URA Act changes – tabled and awaiting new parliamentary sitting
- Production Licence Application – to move the company past Prospecting Rights and replace with Production Rights under the Geothermal Act.
- Government Ratification Agreement – to finalise other operating conditions and ratify Production Licence.

- PPA – drafts with UNELCO. Pending regulatory changes final negotiations will be completed.

Land Access

The Land Tribunal has handed down its decision on the rightful customary owners of the land. The company has been in discussion with all parties prior to the final decision and will continue to maintain a close dialogue with the community in the Takara region.

Drill site target

Our technical team led by Dr Fiona Holgate has settled on drill target locations for the initial shallow geotechnical test holes. These holes are planned to gather information about near-surface conditions at Takara ahead of the targeting and drilling of deeper wells. Drill rigs are currently being evaluated for this first drill phase.

Saipan – Northern Marianas

On 29 August the company issued an ASX release to investors to notify of slow progress being made on the completion of the documentation for the Saipan contract that the company had successfully bid for and won in January 2012. In August media releases started to leak that the Governor of Saipan and the then Attorney General had signed a new sole sourced Power Purchase Agreement with a US private company to construct additional diesel generation in Saipan. KUTH announced that the likely effect of such a diesel agreement would be to limit the ability of the government to contract with renewable energy producers. This was confirmed when the company received written notice from the CUC that the Geothermal Gradient Well project had been cancelled. Similar notices were issued to other renewable energy projects that had passed through the Request For Proposal stage.

There is considerable discontent in Saipan surrounding the signing of the diesel contract and it will be some time before it is clear whether this will be upheld or cancelled. In the meantime KUTH is following dispute procedures under the CUC procurement guidelines and has issued a “Protest notice” and is being advised on any further rights it has in this matter.

Fiji

The company continues to pursue its licence applications in Fiji. We have now been advised that the Fiji Mineral Resources Department have finished their review of the applications for Vatukoula and Sabeto and recommendations have now been forwarded to the Minister of Lands for final review and approval. The company continues to work closely with the Vatukoula Gold Mine to maximise the data available from current drilling operations near to the existing mining operations.

General and Corporate Activities

Appointment of New Director – Professor Mary O’Kane

On 23 July 2012 the company announced that it had appointed Emeritus Professor Mary O’Kane to the board as a non-executive director with effect from 9 August 2012. Mary O’Kane brings considerable experience in the renewable energy sector and has recently completed her term as chair of the Australian Centre for Renewable Energy (ACRE) where she

initiated and participated in a targeted review of the geothermal sector in Australia conducted in 2011. Mary has strong credentials and valuable experience which she brings to the board.

Cash holdings

At 30 September 2012 the company's cash holdings stood at \$1,036,000.



David McDonald
Managing Director
Ph: +61 2 9238 6865

Corporate information

Board of directors

Bruce McKay (non-executive chairman)
Dr Stephen Bartrop (non-executive director)
Paul Broad (non-executive director)
George Miltenyi (non-executive director)
Prof Mary O’Kane (non-executive director)
David McDonald (managing director)

Company secretary

Justin Clyne

Registered office

Level 7, 207 Kent Street
Sydney NSW 2000
Australia
Telephone: 1300 737 760
Email: info@kuthenergy.com
Website: www.kuthenergy.com

Share registry

Boardroom Pty Ltd
Level 7, 207 Kent Street
Sydney NSW 2000
Australia
Telephone: 1300 737 760
Facsimile: 1300 653 459
Website: www.boardroomlimited.com.au

Stock exchange listing

Ordinary shares ASX code: KEN

Issued share capital

At 30 September 2012, issued capital was:
111,135,300 ordinary shares
10,800,000 unlisted options

Substantial shareholders

John Bishop & associates	12.09%
Stephen Bartrop & associates	6.37%
George Miltenyi & associates	6.11%
Clodene Pty Ltd	6.03%

Quarterly price activity

KEN – ordinary shares
High: \$0.031
Low: \$0.022
Last (30.09.12): \$0.024